

Message Text

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PAGE 01 OTTAWA 03104 251654Z

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ACTION EUR-25

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SUBJECT: ECONOMIC FORECAST FOR CANADA

1. BEGIN SUMMARY. CONFERENCE BOARD OF CANADA HAS ISSUED FIRST OF QUARTERLY ECONOMIC FORECASTS OF CANADIAN ECONOMY. REPORT EXTREMELY PESSIMISTIC FOR 1975, PREDICTING REAL GNP RISE OF ONLY ABOUT 1 1/4 PERCENT AND INFLATION RATE OF 12 PERCENT. BANK OF CANADA AND FINANCE DEPARTMENT OFFICIALS MORE OPTIMISTIC ABOUT ECONOMIC TRENDS BUT WORRY THAT LARGE WAGE SETTLEMENTS WILL RESULT IN SEVERE COST-PUSH INFLATION. END SUMMARY.

2. ON SEPTEMBER 23 THE CONFERENCE BOARD OF CANADA, PRIVATE BUT HIGHLY RESPECTED ECONOMIC INSTITUTE, PUBLISHED VERY PESSIMISTIC ECONOMIC FORECAST FOR CANADA'S ECONOMY IN 1975. ACCORDING TO BOARD PRESIDENT ARTHUR J.R. SMITH, AT PRESS CONFERENCE MARKING FIRST PUBLIC RELEASE OF BOARD'S QUARTERLY ECONOMIC FORECAST, BOARD'S REPORT PROJECTS "SHARPLY SLOWER RATE OF ECONOMIC EXPANSION THAN WE HAVE HAD IN CANADA OVER ANY COMPARABLE PERIOD IN MORE THAN A DECADE".

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PAGE 02 OTTAWA 03104 251654Z

EM BOARD'S FORECAST IS FOR REAL GNP RISE IN 1975 OF

ONLY ABOUT 1 1/4 PERCENT OVER 1974, COMPARED WITH ESTIMATED INCREASE IN CONSUMER PRICE INDEX OF 12 PERCENT FOR 1975 AND GROWTH OF UNEMPLOYMENT FROM ESTIMATED 5.5 PERCENT IN 1974 TO 7 PERCENT IN 1975.

4. AMONG MAJOR REASONS CITED BY DECLINE IN NEW HOUSING; MODERATE DECLINE IN CONSUMER SPENDING ON DURABLE GOODS; MARKED SLOWING IN INVENTORY ACCUMULATION, AND TEMPORARY FURTHER DECLINE IN EXPORTS OF GOODS AND SERVICES IN RELATION TO IMPORTS.

5. BOARD REPORTS "RELATIVELY HIGH" PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME FOR 1975 BUT "ADVANCES WILL BE MUCH SLOWER THAN OVER PAST FOUR YEARS". BOARD ALSO PROJECTS THAT CORPORATE PROFITS WILL BE "SQUEEZED BY POOR PRODUCTIVITY PERFORMANCE AND CONTINUED HIGH RATES OF INCREASE IN UNIT LABOR COSTS".

6. BOARD'S PROJECTIONS ARE BASED ON UNDERLYING "ASSUMPTION THAT U.S. ECONOMY IS NOW IN MILD BUT BRIEF RECESSION THAT WILL BE FOLLOWED BY GRADUAL RECOVERY IN THE LATTER PART OF 1975." MR. SMITH TOLD PRESS CONFERENCE THAT IN MAKING FORECASTS, IT WAS ASSUMED THAT THERE WOULD BE NO SIGNIFICANT GOC POLICY CHANGES. MR. SMITH ALSO CLAIMED THAT PRICE INCREASES ABROAD CONTINUE TO AFFECT DOMESTIC INFLATION, ALTHOUGH DOMESTIC COST-PUSH FACTORS ARE BECOMING INCREASINGLY PROMINENT.

7. COMMENT: BOARD ECONOMIST ROBERT RENE DE COTRET HAD TOLD EMBOFF BEFORE RELEASE OF REPORT THAT HIS PROJECTIONS, WHICH FORM BASIS FOR ITS THRUST, WERE "EXTREMELY PESSIMISTIC" AND WOULD NOT BE GREETED WITH MUCH ENTHUSIASM BY GOC OFFICIALS. J.N. R. WILSON, FORMER DIRECTOR OF RESEARCH AND NOW ADVISOR TO GOVERNOR, BANK OF CANADA, DISAGREED WITH CONFERENCE BOARD'S "GLOOM AND DOOM" PROJECTIONS. HE TOLD EMBOFF THAT CANADIAN ECONOMY HAD UNDERLYING STRENGTH AND WOULD PROBABLY HAVE INCREASE IN REAL GNP OF ABOUT 4 PERCENT FOR 1975. HOWEVER, MR. WILSON WAS GREATLY CONCERNED

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PAGE 03 OTTAWA 03104 251654Z

ABOUT WHAT HE TERMED WAGE "EXPLOSION" IN CANADA WITH WORKERS PUSHING FOR AND OBTAINING EXTREMELY HIGH WAGE CONTRACT SETTLEMENTS. HE THOUGHT CONTINUED HIGH COST-PUSH INFLATION RATES MIGHT HAVE DAMPENING EFFECT ON BUSINESSMEN'S INVESTMENT INTENTIONS AND THUS SLOW DOWN REAL GROWTH.

8. FURTHER COMMENTING ON CONFERENCE BOARD REPORT,

WILSON SAID THAT ECONOMIC FORECASTERS WERE BECOMING INCREASINGLY UNABLE TO DEAL WITH APPARENT CONFLICTING ECONOMIC INDICATORS. HE CITED SEVERAL EXAMPLES OF SUCH CONFLICTS: SHORTAGES OF SKILLED AND UNSKILLED LABOR IN VARIOUS PROVINCES BUT A HIGHER UNEMPLOYMENT RATE; SHORTAGES OF CONSUMER GOODS (THE BANK ITSELF WAS UNABLE TO OBTAIN SUFFICIENT BIDS ON FURNITURE SUPPLY FOR ITS NEW BUILDING), BUT A DECLINE IN THE INDUSTRIAL PRODUCTION INDEX; HIGH INTEREST RATES AND CONTINUED NON-RESIDENTIAL BUILDING BOOM (PARTICULARLY IN OTTAWA WHERE EVERY DOWNTOWN STREET SEEMS TO HAVE A NEW OFFICE BUILDING UNDER CONSTRUCTION); DOUBLE-DIGIT INFLATION RATES AND HIGHER-THAN-EXPECTED BUSINESS INVESTMENT INTENTIONS.

9. LAST WEEK DAVID SLATER, DIRECTOR OF ECONOMIC ANALYSIS, FINANCE DEPARTMENT, TOLD EMBOFF HE WAS STILL OPTIMISTIC ABOUT PERFORMANCE OF CANADAIN ECONOMY IN 1975. HE BASED HIS PROJECTION OF APPROXIMATELY 4 PERCENT GROWTH IN REAL GNP LARGELY ON CAPITAL SPENDING OUTLAYS, PARTICULARLY FOR PETROCHEMICAL AND RELATED INDUSTRIES. HOWEVER, HE TOO WAS WORRIED ABOUT EXCESSIVE WAGE SETTLEMENTS BUILT INTO THEM BUT ALSO LARGE ONE AND TWO-YEAR WAGE INCREASES.

10. PROJECTIONS ON PERFORMANCE OF CANADIAN ECONOMY FOR REST OF 1974 AND FOR 1975 ARE BECOMING INCREASINGLY DIFFICULT TO ANALYZE. HOWEVER, EMBASSY WOULD AGREE WITH CONFERENCE BOARD THAT HIGH RATES OF INFLATION WILL PROBABLY CONTINUE IN CANADA THROUGH 1975, PARTICULARLY IN WAKE OF INCREASING DEMANDS FOR DOUBLE-FIGURE PERCENTAGE WAGE INCREASES. FOR EXAMPLE, MONDAY'S NEWSPAPAERS CARRY STORY OF 20,000 ONTARIO LIMITED OFFICIAL USE

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PAGE 04 OTTAWA 03104 251654Z

PUBLIC SERVICE UNION DEMANDING 61.5 WAGE INCREASE BEFORE END OF 1974.
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